

REBUTTAL TESTIMONY
OF

DIANNA HATHHORN

Accountant
Accounting Department
Financial Analysis Division
Illinois Commerce Commission

Reconciliation of Revenues Collected Under Coal Tar Riders with Prudent Costs
Associated with Coal Tar Clean Up Expenditures

Illinois Power Company

Docket No. 02-0169

October 21, 2002

Witness and Schedule Identification

Q. Please state your name and business address.

A. My name is Dianna Hathhorn. My business address is 527 East Capitol Avenue, Springfield, Illinois 62701.

Q. Are you the same Dianna Hathhorn who provided direct testimony in this proceeding?

A. Yes.

Q. What is the purpose of your rebuttal testimony?

A. I am responding to the rebuttal testimony of Illinois Power Company ("IP" or "Company") witness Martin concerning my adjustments for EPRI dues and the PAH Study. I also present corrected schedules to properly account for my adjustments.

Schedule Identification

Q. Are you sponsoring any schedules with your testimony?

A. Yes. I have prepared two supporting schedules that are attached to this testimony:

Schedule 2.01 -- Current Year Over-Recoveries per IP and per Staff

Schedule 2.02 -- Cumulative Costs and Recoveries per IP and per Staff

22

23 Adjustment to Disallow EPRI Dues

24 Q. IP witness Martin states that its membership in the Electric Power Research
25 Institute ("EPRI") provides many valuable resources (IP Exhibit 2.7, page 2,
26 line 31). Is Staff opposed to IP's membership in EPRI?

27 A. No. My adjustment is not related to the prudence of the cost but rather that it
28 is a base rate item that should not be allowed to be double-recovered
29 through the Riders (ICC Staff Exhibit 1.00, page 4, lines 76 through 80).

30

31 Q. IP witness Martin states that without payment of the EPRI fee, IP would not
32 have access to valuable MGP information (IP Exhibit 2.7, page 3, line 46).
33 Does Staff's adjustment deny IP the ability to pay its EPRI dues?

34 A. No. IP already recovers, through its base rates, an amount for EPRI dues
35 (ICC Staff Exhibit 1.00, page 4, lines 84 through 92). Adoption of Staff's
36 adjustment will not alter the Company's ability to pay its dues.

37

38 Q. The Company describes how the fee structure at EPRI changed in year
39 2000, and that this is the first attempt by IP to recover such fees since the
40 change (IP Exhibit 2.7, page 3, lines 49 through 56). Does the way EPRI
41 structures its dues or fees payments affect Staff's adjustment?

42 A. No. Staff's adjustment is not based on EPRI's internal fee structure, but
43 rather on the requirements of rate recovery for an incremental coal tar cost
44 under the Company's Rider EEA and GEA (ICC Staff Exhibit 1.00, pages 3-
45 4, lines 54 through 73). EPRI's fee structure is irrelevant to this issue.

46
47 Q. The Company states that for the year 2000, since IP was not engaged in
48 cleanups that year, it chose to forgo EPRI membership that year (IP Exhibit
49 2.7, page 4, lines 60 through 62). Did IP request a base rate decrease for
50 the year 2000 to reflect the fact it was receiving cost recovery of EPRI dues,
51 although it was not a member?

52 A. To the best of my knowledge, no.

53
54 Q. The Company states that the EPRI dues are environmental activities
55 consistent with the definition of incremental costs, and that the dues are
56 directly attributable to MGP sites and therefore rate recovery under the
57 Riders is appropriate (IP Exhibit 2.7, page 4, lines 65 through 69). What is
58 the Company's basis for this opinion?

59 A. I do not find a basis in the Company testimony to support this position. Staff
60 has provided evidence that IP already receives proper rate recovery for EPRI
61 dues in its base rates. IP has presented no evidence to support a change in
62 this policy.

Adjustment to Disallow the Cost of an EPRI Study on the Background Level of Polynuclear Aromatic Hydrocarbons ("PAH Study")

Q. Company witness Martin describes the benefits of the PAH Study (IP Exhibit 2.7, page 8, lines 148 through 150). Is Staff opposed to the PAH Study?

A. No. My adjustment is not related to the prudence of the cost but rather that it is a base rate item that should not be recovered through the Riders. Since the costs in question are for research and development, they are recoverable under IP's base rates, not Riders GEA and EEA (ICC Exhibit 1.00, page 7, lines 126 through 134).

Q. The Company states that everything that was done in the PAH Study is consistent with the definition of incremental costs in its Rider (IP Exhibit 2.7, page 8, lines 154 through 155). What is the Company's basis for this opinion?

A. The Company states that if it were not for the Company MGPs, there would be no need to fund this particular study (IP Exhibit 2.7, page 8, lines 156 through 157). Again, simply because a cost is MGP *related* does not mean it qualifies for rate recovery under the Riders. Examples of MGP *related* costs that do not qualify for rate recovery under the Riders include Company labor charges for engineering and legal costs. This is because such costs

fall outside the purpose of the Riders. For example, the tariff language of Rider GEA states:

The purpose of this Rider GEA is to establish an adjustment factor to recover the ***Incremental Costs*** of Environmental Activities (commonly referred to as Coal Tar Costs) from Customers taking natural gas service subject to this Rider. (From Rider GEA, Ill.C.C. No. 32, First Revised Sheet No. 40, page 1 of 3, Effective April 1, 1996) (bold and italicized font added for emphasis)

The Company admits the PAH Study is an attempt to modify the TACO (Tiered Approach to Corrective Action Objectives) objectives on a generic basis (IP Exhibit 2.7, page 8, lines 158 through 159). The cost of the PAH Study, therefore, is not an incremental clean up cost, but rather is a research and development cost appropriate for recovery under the Company's base rates.

Revised Schedules

Q. Please describe Schedule 2.01 Current Year Over-Recoveries per IP and per Staff.

A. Schedule 2.01 replaces my Schedules 1.02 and 1.03, filed in ICC Staff Exhibit 1.00. Schedule 2.01 reflects the fact that the costs in question were not yet borne by IP's ratepayers but rather were paid for with insurance recoveries held in trust by IP. Therefore, in addition to reflecting the cost disallowance on lines 1 through 4, the trust must be reimbursed, as shown

on lines 6 through 9. The insurance trust needs to be reimbursed by IP to repay the trust for costs not allowable per the Riders. The net effect of the a) costs and b) insurance recoveries results in a net zero change to the final (over)/under recovery balance for 12/31/01.

Q. Please describe Schedule 2.02 Cumulative Costs and Recoveries per IP and per Staff.

A. Schedule 2.02 reflects the effects of Staff's adjustments on the cumulative costs and the cumulative recoveries through 12/31/01.

Q. Are you making any revisions to your Schedule 1.01, from ICC Staff Exhibit 1.00?

A. No, my original schedule of Incremental Costs by Site or Category is still accurate.

Conclusion

Q. In conclusion, what is your recommendation?

A. I recommend that the Commission accept the reconciliation as set forth on my Schedule 2.01. The Commission should find IP's total over-recoveries to be \$11,258, which is the sum of the \$6,928 EEA over-recovery and the \$4,330 GEA over-recovery. The Commission should also direct IP to reimburse its

130 insurance trust for all costs disallowed in this proceeding.

131

132 Q. Does this question end your prepared rebuttal testimony?

133 A. Yes, it does.

Illinois Power Company
Current Year Over-Recoveries per IP and per Staff
At December 31, 2001

Line Number		EEA				Source
		Residential	Commercial	Industrial	Total	
1	Actual 2001 Costs	\$632,564	\$470,859	\$216,619	\$1,320,042	(1)
2	Less: EPRI Dues	(15,995)	(11,906)	(5,477)	(33,379)	(2)
3	Less: PAH Study	(32,643)	(24,298)	(11,179)	(68,120)	(2)
4	Adjusted 2001 Costs	\$583,926	\$434,654	\$199,963	\$1,218,543	Sum of lines 1 through 3
5	2000 Annual Reconciliation	(\$16,399)	\$6,062	\$3,356	(\$6,981)	(1)
6	Insurance/Other Recoveries	(\$632,564)	(\$470,859)	(\$216,619)	(\$1,320,042)	(1)
7	Reimbursement to Insurance Trust for EPRI Dues	15,995	11,906	5,477	33,379	(3)
8	Reimbursement to Insurance Trust for PAH Study	32,643	24,298	11,179	68,120	(3)
9	Adjusted Insurance/Other Recoveries	(\$583,926)	(\$434,654)	(\$199,963)	(\$1,218,543)	Sum of lines 6 through 8
10	Total Actual Costs for Recovery in 2001	(\$16,399)	\$6,062	\$3,356	(\$6,981)	Sum of lines 4, 5, and 9
11	Less: Revenues Billed Based on Actual kWhs Billed	(30)	(23)	-	(53)	(1)
12	(Over)/Under Recovery Balance 12/31/01	<u>(\$16,369)</u>	<u>\$6,085</u>	<u>\$3,356</u>	<u>(\$6,928)</u>	Line 10 - line 11

- (1) Source: IP Exhibit 1.2
(2) Source: Staff Exhibit 1.00, Schedule 1.03
(3) Source: Staff Rebuttal Testimony

Illinois Power Company
Current Year Over-Recoveries per IP and per Staff
At December 31, 2001

Line Number		GEA				Source
		Residential	Commercial	Industrial	Total	
1	Actual 2001 Costs	\$363,932	\$101,809	\$152,035	\$617,776	(1)
2	Less: EPRI Dues	(9,202)	(2,574)	(3,844)	(15,621)	(2)
3	Less: PAH Study	(18,781)	(5,254)	(7,846)	(31,880)	(2)
4	Adjusted 2001 Costs	\$335,949	\$93,981	\$140,345	\$570,275	Sum of lines 1 through 3
5	2000 Annual Reconciliation	(\$6,340)	(\$2,130)	(\$2,675)	(\$11,145)	(1)
6	Insurance/Other Recoveries	(\$363,932)	(\$101,809)	(\$152,035)	(\$617,776)	(1)
7	Reimbursement to Insurance Trust for EPRI Dues	9,202	2,574	3,844	15,621	(3)
8	Reimbursement to Insurance Trust for PAH Study	18,781	5,254	7,846	31,880	(3)
9	Adjusted Insurance/Other Recoveries	(\$335,949)	(\$93,981)	(\$140,345)	(\$570,275)	Sum of lines 6 through 8
10	Total Actual Costs for Recovery in 2001	(\$6,340)	(\$2,130)	(\$2,675)	(\$11,145)	Sum of lines 4, 5, and 9
11	Less: Revenues Billed Based on Actual kWhs Billed	(5,385)	(1,430)	-	(6,815)	(1)
12	(Over)/Under Recovery Balance 12/31/01	(\$955)	(\$700)	(\$2,675)	(\$4,330)	Line 10 - line 11

- (1) Source: IP Exhibit 1.2
(2) Source: Staff Exhibit 1.00, Schedule 1.03
(3) Source: Staff Rebuttal Testimony

Illinois Power Company
Cumulative Costs and Recoveries
per IP and per Staff
At December 31, 2001

<u>Line Number</u>	<u>Description</u>	<u>Amount</u>	<u>Source</u>
1	Total cumulative costs incurred costs through December 31, 2001 per IP	\$25,575,083	(1)
2	Less: EPRI Dues	(49,000)	(2)
3	Less: PAH Study	<u>(100,000)</u>	(2)
4	Total cumulative costs incurred costs through December 31, 2001 per Staff	<u>\$25,426,083</u>	Sum of lines 1, 2, and 3
5	Insurance recoveries received in 2001per IP	\$1,937,818	(3)
6	Reimbursement to Insurance Trust for EPRI Dues	(49,000)	(2)
7	Reimbursement to Insurance Trust for PAH Study	<u>(100,000)</u>	(2)
8	Insurance recoveries received in 2001per Staff	\$1,788,818	Sum of lines 5, 6, and 7
9	Insurance recoveries through December 31, 2000	\$13,176,239	(3)
10	Cumulative Insurance Recoveries per Staff	\$14,965,057	Sum of lines 8 and 9
11	Cumulative Revenue Recoveries through December 31, 2001	\$10,472,282	(2)
12	Total Cumulative Recoveries through December 31, 2001 per Staff	<u>\$25,437,339</u>	Sum of lines 10 and 11

(1) Source: IP Exhibit 1.3

(2) Source: Staff Schedules 1.01 and 2.01

(3) Source: IP Exhibit 1.4